



Final Report and Recommendations by the
Mini-Conference on Financial Literacy throughout the Life Cycle

July 14, 2005

Capitol View Conference Center
Washington, DC

2005 White House Conference on Aging Mini-Conference on Financial Literacy throughout the Life Cycle: Policy Recommendations:

FIRST LEVEL RECOMMENDATIONS

Issue #1:

Americans generally do not have adequate financial literacy to make the necessary complex and demanding financial decisions they face.

Background:

Americans don't adequately understand issues such as assets needed for retirement, unsafe levels of debt, or how to differentiate financial products and providers. The national savings rate is at a disturbingly low level while consumer debt is alarmingly high. Many Americans feel that consumer spending is necessary, but that planning for their financial future is not. Too many Americans are ignorant of, or have false expectations about, the benefits of government-provided retirement security programs, such as Social Security and Medicare.

Government officials, actuaries, and other professionals who are interested in Americans' financial well-being believe behavioral change is needed. However, central leadership and funding is lacking to effect this change. Government, nonprofit organizations, and business have not yet fulfilled this leadership and funding role. Employers that do recognize the need are hesitant to implement wide-scale financial education due to uncertainty about complex regulations and potential liability. Community and workplace-based programs struggle for proper funding and don't have good models of success to follow.

Recommendation:

Launch and Fund a Federal Government-Sponsored Social Marketing Campaign

This campaign should incorporate and build upon the highly successful ChoosetoSave® education program and be designed to provide financial education that fosters measurable behavioral change. The changes in public behavior should relate to the financial decisions Americans must make to achieve their hopes and aspirations. The national campaign should use consistent messages, reach people when the topic is of concern, and be segmented to be culturally sensitive so as to ensure the messages are heard and understood.

The campaign should be national in scope and begin with the establishment of a President's Council on Fiscal Fitness with a highly visible or celebrity champion. This Council should be a permanently funded federal government office with central authority to conduct the federal government's national campaign, conduct research on best practices for financial education programs, and set national financial literacy policies.

Issue #2:

Americans too often are not good at managing their hard-earned assets during retirement.

Background:

Americans today are living longer and spending much more time in retirement than ever before. As a result, they must make many more and increasingly complex financial decisions. One of the most pressing issues to address is helping Americans manage their assets to ensure income throughout retirement. People should have a permanent stream of income throughout retirement beyond just Social Security.

Recommendation:

Expand the Use of Products That Ensure a Stream of Income throughout Retirement

This could be accomplished by providing a 50 percent exclusion from income tax for life annuity payments and a safe-harbor for employer plans that offer this product as an option.

Issue #3:

Americans too often are the victims of financial fraud and exploitation.

Background:

Financial fraud and exploitation can negate the savings efforts of Americans during their working years by literally wiping out their assets. American consumers and government officials too often do not recognize that financial fraud and exploitation is a problem.

The lack of standardized information is a key problem. In addition, why Americans become more susceptible to fraud as they age is not widely studied. There is a general lack of understanding about how financial fraud and exploitation is happening, who is doing it, and which individuals are most at risk.

Due to scarce funding and inattention, those working to prevent and prosecute financial fraud lack training and support materials. Beyond that, coordination among professionals is weak or nonexistent and there is a lack of data to demonstrate what approaches are effective. As well, there are different paradigms, experiences, and professional backgrounds and values. This leads to a lack of professional expertise; uniform definitions, vocabulary, and concepts; distribution channels; and evaluation of behavior change.

Recommendation:

Establish a National Center on Financial Fraud and Exploitation

This center, in coordination with the proposed President's Council on Fiscal Fitness, should act as a clearinghouse and think-tank on financial fraud issues. It would identify, collect, and evaluate existing materials and resources, determine any unmet needs, and develop new materials and programs. It should also use research to develop model materials and laws and regulations.

SECOND LEVEL RECOMMENDATIONS

Issue #4:

Americans' lack of financial literacy has an immediate impact on both individuals and the economy while improving the nation's financial literacy and changing public financial behavior will take generations.

Background:

Currently, the personal savings rate is alarmingly low. Cultural predilection to spend and not save will be hard to correct in the short term. If that behavior does begin to change, Americans will encounter a lack of easily understandable, mass-market investment and insurance products. For those who believe they need assistance, there is no easy method for consumers to evaluate and select a financial advisor. Competent advisors for all income levels are not widely available.

One of the most effective places for Americans to save is the workplace. However, among employees who do have access to a workplace-based retirement savings plan participation is low. As changing demographics and budget deficits will put a strain on government health and retirement support programs, innovative solutions are necessary to address short-term needs while longer-term behavior is changed.

Recommendation:Increase the Prevalence of Automatic and “Opt-Out-Only” Savings Features

This should be accomplished by introducing a three-percent mandatory Social Security add-on individual account, safe-harbors for defined contribution automatic features including enrollment, escalation of contribution, and allocation to life-cycle funds, payroll deduction IRAs, and allowing tax refunds to be directly deposited in retirement accounts. Policies should increase employers’ ease of implementation, management, and control of retirement accounts in order to reduce liabilities and the costs involved.

Issue #5:

Americans too often are the victims of financial fraud and exploitation.

Background:

There is a lack of education at all ages about financial fraud and exploitation. It is perceived to be a small issue compared to other social problems. Therefore, there is little funding for or coordination in, efforts to alert Americans about new and existing financial fraud and exploitation schemes.

Recommendation:Create and Fund a National Strategy to Reduce Financial Fraud and Exploitation

This should be accomplished by instituting, within any financial education campaign coming from the proposed President’s Council on Fiscal Fitness, a specific strategy to combat financial fraud and exploitation. This strategy should include an educational program across lifespan and be conducted in schools, at workplace settings, and through faith-based organizations and interest and affinity groups. This education should come from teachers, government agencies, law enforcement officials, and financial services companies. The strategy should coordinate this education with proper law enforcement preventative and prosecutorial actions.

Issue #6:

The United States does not address financial literacy at the most important stage in life when it can be learned by most individuals: during elementary and high school years.

Background:

Early education is critical to achieving national financial literacy. Personal finance is not widely included in state curricula standards due to a variety of factors. The No Child Left Behind law encourages teaching to specific standards, but these currently do not adequately cover personal finance. Also, financial literacy is not a priority issue for the U.S. Department of Education or state and local education officials. Therefore, financial education is not given the importance or time it needs in the classroom.

Additionally, where classroom curricula do exist, there is often not adequate funding for its costs. There is a shortage of qualified and competent teachers in financial education. Training these teachers requires funding, as do the necessary classroom materials.

Recommendation:

The Federal Government Should Mandate Financial Literacy Courses as a Requirement for High School Graduation

This mandate should include age-appropriate financial education in all school curricula and should also provide funding for teacher training and material development through the U.S. Department of Education, coordinated with the proposed President's Council on Fiscal Fitness.

This report and recommendations are submitted by the White House Conference on Aging Mini-Conference on Financial Literacy throughout the Life Cycle Planning Organization:

Employee Benefit Research Institute
Dallas L. Salisbury, President & CEO